

Office of the Governor Lincoln D. Chafee State of Rhode Island



MUNICIPAL PENSIONS

As part of his municipal aid legislative package, Governor Chafee is proposing three pieces of legislation to reform municipal pension plans run by the State and by cities and towns.

1) Critical Plan Empowerment Act

The severe underfunding of our independent municipal plans endangers the fiscal health of our communities and our state, jeopardizes retirement security for municipal employees, and discourages business investment and economic development. Locally-administered plans have an unfunded actuarial accrued liability of \$2.1 billion and an average funded ratio of 40.3% (as of the most recent data available).

This legislation provides communities with severely underfunded independent pension plans to suspend annual cost of living adjustments (COLAs) if certain conditions are met:

- The plan must be in "critical status" (funded below 60%)
- The municipal council must pass an ordinance with the following:
 1. Numerical data, based on the most recent actuarial data and experience studies, describing what the community's annual required contribution to the underfunded plan would be in the coming fiscal year, calculated both to include and exclude the COLA benefit (thereby demonstrating the savings of COLA suspension)
 2. Findings demonstrating that alternatives to COLA benefit suspension have been considered and/or are being implemented
 3. A finding that the suspension is "reasonable and necessary to achieve the municipality's fiscal stability."
- Annual COLAs may resume when the plan emerges from critical status, but they may not exceed the annual consumer price index (CPI-U)
- At least 50% of savings from COLA suspension must be reinvested into the underfunded pension plan.

The suspension of annual automatic benefit increases is consistent with the State's approach to pension reform and will provide a much-needed tool needed to cities and towns struggling to contain their soaring pension costs.

2) Disability Pension Reform

The legislation makes changes to disability pension benefits under the State-run Municipal Employee Retirement System (MERS). Currently, an employee that retires because of a work-related disability is entitled to a tax-free disability pension of 66 2/3% of salary. The proposed legislation would reduce the amount of the disability pension from 66 2/3% to 50% of salary if the affected employee is able to perform other employment. It maintains the 66 2/3% disability pension for people who are permanently disabled and unable to work.

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3) Local Pension Benefits Cap

This legislation states that locally administered independent pension plans cannot offer benefits more generous than the State-run Municipal Employee Retirement System (MERS).

Below is a summary of the MERS system's plan structure:

CRITERIA:	MERS	MERS Police & Fire
Retirement Age	Social Security Normal Retirement Age	Age 55 with 25 years of service
Base Salary Calculation	Average of 5 consecutive highest years	Average of 5 consecutive highest years
Benefit Multiplier (Accrual Rate)	1% of salary	2% of salary
Defined Contribution – Employer Share	1% of salary (3% if community not in Soc. Sec.)	None (3% of salary if community not in Soc. Sec.)
Defined Contribution – Employee Share	5% of salary (7% if community not in Soc. Sec.)	None (3% of salary if community not in Soc. Sec.)
Annual COLA*	Risk-adjusted with target of 2% (range of 0% to 4%)	Risk-adjusted with target of 2% (range of 0% to 4%)

** Employees in MERS and MERS Police and Fire must decide whether to opt into a plan providing an annual COLA. Pension plans with annual COLAs require additional employee contributions.*

While communities are encouraged to mirror the MERS plan, the legislation provides flexibility to cities and towns to determine the individual criteria of their pension systems, provided that the total benefit to an employee is not actuarially greater than he/she would receive in the State-run MERS system.

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HIGHLY DISTRESSED COMMUNITIES

Due to various factors, including reductions in state aid, costly state mandates and rising pension obligations, many municipalities are currently or on the verge of becoming highly financially distressed. The Governor proposes legislation to provide mandate relief and promote cost reductions in the most vulnerable communities.

Creation of “Highly Distressed Community” Designation

The state currently provides additional aid to distressed communities that meet three of four criteria determining their wealth relative to property taxes. The legislation would designate municipalities “highly distressed communities” if they are ranked in the lowest 20% of all four distressed community criteria:

- Percent of tax levy to full value of property
- Per capita income
- Percent of personal income to full value of property
- Per capita full value of property

Financial Improvement from Mandate Relief and Increased Efficiencies

The state must relieve these highly distressed communities (HDCs) from state mandates that increase their costs and place a burden on the property taxpayer. The state must also encourage greater efficiencies in municipal operations. The legislation enables the city or town council of a HDC to pass an ordinance allowing it to take advantage of any of the following provisions (a separate ordinance would be required for each change):

1. Reduce Accidental Disability Pensions for Public Safety Employees – Allows HDCs to offer accidental disability pensions for firefighters and police officers to between 50% and 66 2/3% (allowance under current law is between 66 2/3% and 100%)
2. Discontinue Expired Public Safety Collective Bargaining Agreements – Ends current requirement in state law that public safety collective bargaining agreements (CBAs) remain in effect after expiration throughout the binding arbitration process
3. Suspend Educational Incentive Pay for Municipal Police – Ends state mandate requiring law enforcement to be reimbursed for education
4. Require Municipal Chief Executive Approval of School Budgets & Contracts – Grants municipal chief executive (mayor, town administrator, etc.) budget approval process with line item veto power, as well as approval authority over school contracts
5. Consolidate Municipal and School Administrative Functions – Permits merger of “back-office” functions (including human resources, information technology, and facility management) of municipalities and school districts, and gives the municipal chief executive officer responsibility for the manner of consolidation
6. Suspend Teacher Step Increases – Ends state mandate requiring increases in teacher pay according to seniority
7. Suspend Nurse-Teacher Requirement – Ends state mandate that schools employ “nurse-teachers” and permits certified nurses to perform such functions

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8. Suspend School Bus Monitors – Ends state mandate that requires safety monitors on school buses for children in grades K-5; legislation would allow volunteers to perform this function
9. Suspend Non-Public School Transportation – Ends requirement that school districts provide bus transportation for children attending private and religious schools
10. Participate in Statewide Purchasing System – Allows HDCs to take advantage of state's purchasing power to get lower prices on purchased items
11. Require Retiree Health Insurance to Conform to Active Employee Health Insurance – Allows municipalities to make health care plans consistent between active employees and retirees

Taxpayer Accountability Provisions in Collective Bargaining and Binding Arbitration

As part of the collective bargaining process, the municipal council of any HDC must:

1. Estimate the financial impact of any collective bargaining contract proposal on the taxpayers of that community
2. Balance such financial impact against the community's ability to pay, and
3. Take such balance into account before deciding to approve or disapprove the collective bargaining contract

The municipal council may also pass an ordinance restricting the scope of binding arbitration for public safety employee. If passed by the municipal council, the new HDC binding arbitration process would revise the scope of collective bargaining for firefighters and police officers, in order to accelerate resolution, decrease costs, and increase arbitrator accountability. The HDC binding arbitration process would include the following changes:

- Limits the issues that can be submitted to binding arbitration to "base salaries" (excludes longevity pay, overtime, other kinds of special pay and non-salary issues)
- Limits ability to increase aggregate "base salaries" to no more than 2%
- Requires parties to present information on the financial impact to taxpayers of their proposals
- Requires arbitrators to consider overall aggregate compensation received by employees, financial impact of awards, and property tax levy
- Requires arbitrators to include a report describing how they arrived at their decisions and certifying that the board (i) gave primary weight to a community's ability to pay and compared total compensation to community economic conditions, and (ii) took statutory limitations on the local tax levy cap into account
- Requires arbitrators to make decisions within a set deadline (10 days after hearings concluded, with an additional 10 days if briefs requested) or be subject to monetary penalties

Requires an appeal of arbitration board's decision to be made to Supreme Court within 60 days

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EDUCATION

As part of his municipal aid legislative package, Governor Chafee is proposing two pieces of legislation affecting state aid to schools. The first provides greater accountability and oversight of state education aid; the second provides communities with greater flexibility to pay down any accrued school budget debt.

1. School Spending Accountability Act

This legislation creates new reporting and oversight requirements to ensure that accountability and transparency in school funding. Current law requires all public school districts to use a Uniform Chart of Accounts, thereby providing a standardized accounting system across all communities. The legislation builds on that effort by requiring a standardized budget format and promoting best practices for all school districts.

The legislation grants new powers to the RI Department of Education (RIDE) to oversee the uniform budget process and to withhold state education aid in cases of noncompliance. RIDE would have the authority to review school district expenses to determine if they are consistent with budgeted amounts. In cases where school district spending exceeds budgeted levels and a deficit is projected, RIDE is required to inform the Office of Municipal Finance, the Office of Auditor General, school superintendent, the chairman of the school committee, the mayor or town manager, and the president of the town council.

2. Maintenance of Effort Waiver for Debt Reduction Efforts

This legislation addresses the problem of ongoing debt carried by school systems by providing cities and towns a limited exemption from the annual education spending maintenance of effort (MOE) requirement if they appropriate additional funds to pay off school system debt.

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CASH FLOW

As part of his municipal aid legislative package, Governor Chafee will address the needs of numerous cash-strapped communities by proposing legislation to modify the timing of state aid to cities and towns.

Basic Education Aid

Under current law, the state's basic education aid to cities and towns is paid monthly – 2.5 percent of total aid in both July and August and 9.5 percent from September through June. This legislation increases the state's payments to communities to 2.54 percent in July and reduces to 8.86 percent from August through June. (See Appendix A for changes by community)

School Construction Aid

Current law states that the school construction ("school housing") aid payments are made during October and April of each year. This legislation advances the state's payments and makes them on September 15 and March 15 of each year. Payments to the City of East Providence, which has a different fiscal year, would continue to be made during October and April. (See Appendix B for changes by community)

Distressed Communities Aid

Current law states that payments to eligible communities are made each March and August, with equal payments of the appropriated amount being made. This section is amended so that payments are made in one lump sum each August. (See Appendix C for changes by community)